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FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC PRIORITY 5483
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INFO RUEHFK/AMCONSUL FUKUOKA PRIORITY 7700
RUEHNAG/AMCONSUL NAGOYA PRIORITY 7521
RUEHNH/AMCONSUL NAHA PRIORITY 0271
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 1027
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SUBJECT: AMBASSADOR SCHIEFFER'S AUGUST 15 MEETING WITH
MINISTER YOSANO ON CONSUMER FINANCE

¶1. (SBU) Summary. Ambassador Schieffer met with Minister of State for Economic and Fiscal Policy and Financial Services Kaoru Yosano on August 15 to discuss the state of play on revisions to the law governing the consumer finance industry. Minister Yosano confirmed that the "gray zone" between the maximum interest rate for consumer finance companies and for banks will be eliminated. He explained that FSA is now considering the recommendations they will make to the LDP at the end of August. In particular, the FSA is reviewing the pros and cons of various exceptions to the interest rate cap that might be allowed and other conditions that might be placed on lending by consumer finance companies. End Summary.

¶2. (SBU) Ambassador Schieffer met with Minister Yosano on August 15 to inquire about the state of play on the recommendations FSA will make by the end of August for revisions to the law governing the consumer finance industry, the Money Lending Business Law, and to convey US views on the subject. Ambassador Schieffer emphasized that there was a concern among American financial institutions that a reduction in the interest rate would drive borrowers into the black market. He left a non-paper with the Minister that showed how criminal lending increased in Japan after the last reduction. The non-paper showed the same result in Europe when usury rates were lowered there as well.

¶3. (SBU) Minister Yosano explained that the consumer finance industry has been infamous in Japan for charging high interest rates. While he understands that some people need "quick" money, Yosano indicated that the consumer finance industry's almost monopoly on primetime television commercials has turned it into a social issue. He said that Supreme Court judgements have confirmed the "gray zone" nature of lending over 20 percent and outlined the requirements for lending above 20 percent to be considered legal, noting that the presence of the gray zone makes the validity of the consumer finance contracts above 20 percent uncertain.

¶4. (SBU) Yosano went on to say that the elimination of the gray zone will be included in the FSA recommendations to the LDP at the end of August. The current interest rate structure provides for tiers of maximum interest rates between 15-20 percent depending on the amount of the loan. The amounts were set 50 years ago and will be increased. Some stakeholders argue strongly that a small amount of

short-term loans should be allowed at higher rates as an exception. FSA is considering what exceptions to allow, so that industry will not be affected that much, Yosano stated. He noted that he and the LDP will have to take political factors into consideration, but that FSA is ready to listen to comments by Japanese and foreign consumer finance firms and that they are not taking a hostile attitude toward the industry. Finally, Yosano explained that he does not want to see the issue become highly politicized and hopes to "stay below the antennas." Ambassador Schieffer noted the difficulty of balancing between not allowing consumers to be taken advantage of and ensuring that needed credit is available.

SCHIEFFER